

news release



FOR IMMEDIATE RELEASE

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FHLB Des Moines Reports Preliminary Second Quarter 2018 Net Income of \$129 million

2018 Second Quarter Summary Financial Results

- Net income totaled \$129 million, a decrease of \$1 million from the same period last year.
- Net interest income totaled \$167 million, a decrease of \$3 million from the same period last year.
- Balance sheet changes from December 31, 2017 were:
 - Assets totaled \$151.0 billion, an increase of \$5.9 billion.
 - Advances totaled \$110.0 billion, an increase of \$7.4 billion.
 - Capital totaled \$7.5 billion, an increase of \$0.5 billion.
 - Retained earnings totaled \$2.0 billion, an increase of \$0.1 billion.
 - Regulatory capital ratio was 5.15 percent, an increase from 5.03 percent.

Second Quarter 2018 Business Highlights

- Advances of \$110.0 billion were outstanding to 791 members, housing associates, and former members, of which 60 percent were held by the Bank's five largest borrowers.
- Mortgage loans of \$7.3 billion were outstanding of which \$419 million were purchased from 139 members during the second quarter.
- Mortgage loans of \$263 million were delivered by members during the quarter through the MPF Xtra, MPF Direct, and MPF Government MBS programs.
- Letters of credit of \$9.3 billion were outstanding.
- Paid \$60 million of cash dividends at an annualized combined rate of 4.28 percent during the second quarter.
- Accrued \$14 million for use in the Bank's Affordable Housing Program (AHP).

Financial Results Discussion

Net Income - For the three and six months ended June 30, 2018, the Bank recorded net income of \$129 million and \$247 million compared to \$130 million and \$270 million for the same periods in 2017. The Bank's net income was impacted by net interest income, other income (loss), and other expense.

Net Interest Income - The Bank's net interest income totaled \$167 million and \$324 million for the three and six months ended June 30, 2018 compared to \$170 million and \$323 million for the same periods last year. The Bank's net interest margin was 0.44 percent and 0.43 percent during the three and six months ended June 30, 2018 compared to 0.41 percent and 0.37 percent for the same periods in 2017. The increase in net interest margin was primarily driven by the higher interest rate environment.

Other Income (Loss) - The Bank recorded net gains of \$8 million and \$16 million in other income (loss) for the three and six months ended June 30, 2018 compared to net gains of \$6 million and \$41 million for the same periods last year. During the six months ended June 30, 2017, other income (loss) was primarily impacted by net gains on litigation settlements of \$21 million as a result of settlements with certain defendants in the Bank's private-label MBS litigation. We did not record any litigation settlements during the three or six months ended June 30, 2018 or the three months ended June 30, 2017. Other factors impacting other income (loss) included net gains (losses) on derivatives and hedging activities and net gains (losses) on trading securities, as described below.

During the three and six months ended June 30, 2018, the Bank recorded net gains of \$14 million and \$34 million on its derivatives and hedging activities through other income (loss) compared to net losses of \$3 million and net gains of \$3 million during the same periods last year. The fair value changes were primarily driven by changes in interest rates. These changes impacted the Bank's fair value hedge relationships and fair value changes on interest rate swaps that the Bank utilized to economically hedge its investment securities portfolio.

During the three and six months ended June 30, 2018, the Bank recorded net losses on trading securities of \$8 million and \$24 million compared to net gains of \$4 million and \$9 million for the same periods in 2017. These changes in fair value were primarily due to the impact of changes in interest rates and credit spreads on the Bank's fixed rate trading securities.

Other Expense - Other expense totaled \$32 million and \$65 million for the three and six months ended June 30, 2018, compared to \$31 million and \$63 million for the same periods last year. Other expense primarily represents compensation and benefit expenses, contractual services, and professional fees.

Assets - The Bank's total assets increased to \$151.0 billion at June 30, 2018, from \$145.1 billion at December 31, 2017, driven by an increase in advances. Advances at June 30, 2018 increased by \$7.4 billion from advances at December 31, 2017 due primarily to borrowings by certain large members.

Liabilities - The Bank's total liabilities increased to \$143.4 billion at June 30, 2018, from \$138.1 billion at December 31, 2017, driven primarily by an increase in the amount of consolidated obligations needed to fund the Bank's assets.

Capital - Total capital increased to \$7.5 billion at June 30, 2018 from \$7.0 billion at December 31, 2017, primarily due to an increase in activity-based capital stock resulting from an increase in advance balances. In addition, retained earnings increased due to net income, partially offset by dividends paid. The Bank's regulatory capital ratio increased to 5.15 percent at June 30, 2018, from 5.03 percent at December 31, 2017 and was above the required regulatory minimum at each period end. Regulatory capital includes all capital stock, mandatorily redeemable capital stock, and retained earnings.

Additional financial information will be provided in the Bank's Second Quarter 2018 Form 10-Q expected to be available at www.fhlbdm.com and www.sec.gov on or before August 14, 2018.

Federal Home Loan Bank of Des Moines
Financial Highlights
(preliminary and unaudited)

Statements of Condition (dollars in millions)	June 30, 2018	December 31, 2017
Cash and due from banks	\$ 201	\$ 503
Investments	33,019	34,452
Advances	109,963	102,613
Mortgage loans held for portfolio, net	7,310	7,096
Total assets	150,981	145,099
Consolidated obligations	141,590	135,575
Mandatorily redeemable capital stock	373	385
Total liabilities	143,442	138,078
Capital stock - Class B putable	5,420	5,068
Retained earnings	1,977	1,839
Accumulated other comprehensive income (loss)	142	114
Total capital	7,539	7,021
Total regulatory capital ¹	7,770	7,292
Regulatory capital ratio	5.15%	5.03%

¹ Total regulatory capital includes all capital stock, mandatorily redeemable capital stock, and retained earnings. The regulatory capital ratio is calculated as regulatory capital as a percentage of period end assets.

Operating Results (dollars in millions)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Net interest income	\$ 167	\$ 170	\$ 324	\$ 323
Other income (loss):				
Net gains (losses) on trading securities	(8)	4	(24)	9
Net gains (losses) on derivatives and hedging activities	14	(3)	34	3
Gains on litigation settlements, net	—	—	—	21
Other, net	2	5	6	8
Total other income (loss)	8	6	16	41
Total other expense	32	31	65	63
Net income before assessments	143	145	275	301
Affordable Housing Program assessments	14	15	28	31
Net income	<u>\$ 129</u>	<u>\$ 130</u>	<u>\$ 247</u>	<u>\$ 270</u>
Performance Ratios				
Net interest spread	0.34%	0.37%	0.35%	0.33%
Net interest margin	0.44	0.41	0.43	0.37
Return on average equity	6.83	7.13	6.70	7.32
Return on average capital stock	9.46	9.30	9.26	9.40
Return on average assets	0.34	0.31	0.33	0.31

The selected financial data above should be read in conjunction with the financial statements and notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the Bank's Second Quarter 2018 Form 10-Q expected to be filed on or about August 14, 2018 with the SEC.

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Statements contained in this announcement, including statements describing the objectives, projections, estimates, or future predictions in the Bank's operations, may be forward-looking statements. These statements may be identified by the use of forward-looking terminology, such as believes, projects, expects, anticipates, estimates, intends, strategy, plan, could, should, may, and will or their negatives or other variations on these terms. By their nature, forward-looking statements involve risk or uncertainty, and actual results could differ materially from those expressed or implied or could affect the extent to which a particular objective, projection, estimate, or prediction is realized. As a result, you are cautioned not to place undue reliance on such statements.

The Bank is a wholesale cooperative bank that provides low-cost, short- and long-term funding and community lending to nearly 1,400 members, including commercial banks, savings institutions, credit unions, insurance companies, and community development financial institutions. The Bank is wholly owned by its members and receives no taxpayer funding. The Bank serves Alaska, Hawaii, Idaho, Iowa, Minnesota, Missouri, Montana, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming, and the U.S. Pacific territories of American Samoa, Guam, and the Commonwealth of the Northern Mariana Islands. The Bank is one of eleven regional Banks that make up the Federal Home Loan Bank System.